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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Housing Struggles Through 1987 . . .

Dark clouds have been gathering over the housing sector through most of 1987, but the outlook has become even more ominous with the announcement that homebuilding in August was at its lowest rate since April 1983. With new home starts running at an annual rate of only 1.68 million units for the first eight months of this year–11 percent below 1986's comparable period–1987 could be housing's worst year since it hit bottom in the 1981-82 recession. Indeed, in the recent upward revision to the second-quarter gross national product, the important residential investment component was conspicuously absent as a contributor to top-line growth: The sector was revised down by $300 million to an inflation-adjusted annual rate of $196.8 billion.

August's 12.1 percent fall in starts, on a year-over-year basis, affected all sectors of the industry. The loss of tax write-offs for speculative building and vacation homes was partially responsible for the 21 percent drop in multi-unit projects, but even single-family starts were down by seven percent last month, year over year. The Northeast suffered the largest regional drop in construction. Starts there fell by 23 percent in the 12 months ending in August, followed by an 11 percent slump in the South, the area where 40 percent of all new U.S. housing is built.

Home sales have also dropped this year. After reaching a record rate of 900,000 units in March 1986, new single-family home sales have fallen off dramatically. From May through July of this year, new home sales averaged a seasonally adjusted annual rate of less than 650,000 units. Existing homes fared slightly better. Sales in July were two percent above the previous July's, but in general, existing home sales peaked at the end of 1986 and have since tapered off.

Part of the blame for housing's slump can be placed on the recent rise in mortgage rates. However, these rates are still below their levels of early last year–when new home sales averaged 734,000 units at an annual rate. Another explanation of housing's dilemma may lie in the classic economic tenet of supply and demand. Just as supply must relate to demand, the quantity demanded is contingent on price. And in this area, at least, housing has seen rapid growth.

The average price of a new single-family home bought in July was $129,200, 10.6 percent above the price in July 1986. Existing homes commanded a record $108,600 in June, an increase of 6.4 percent over last year. By comparison, during the same 12-month period the total consumer price index rose four percent and disposable personal income, 4.7 percent.

. . . As Prices And Mortgage Rates Rise . . .

A result of this runup in home prices has been a continued rise in monthly mortgage payments, although at a slower pace than in previous years. Consequently, fewer households can afford to purchase a home. It is estimated that in July less than a third of American households were financially equipped to take on a new mortgage compared with 40 percent at the end of 1986.

Regionally, average mortgage payments in July ranged from a high of $1,096 in Honolulu to a low of $540 in Louisville, KY. Besides Honolulu, five other metropolitan areas had average monthly payments exceeding $1,000. For home prices, Boston led the way at $183,300 for a financed home, followed closely by the San Francisco area ($179,900) and the New York City region ($177,300).

How long home prices can continue their rapid ascent is a critical question in determining the outlook for the housing industry. Already, home prices for both new and existing homes have begun to fall in some areas. The Federal Home Loan Bank Board reports that in 11 of 30 cities surveyed, home prices in July 1987 were below those of July 1986. Still, housing starts for 1987 as a whole should come in at around 1.7 million units, a seven percent drop from 1986–and a harbinger of ill for the downstream industries that depend on this sector.

Two industries that have already been

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adversely affected by the slowdown in housing activity are the household appliance and home furnishings industries. In August, the dollar value of retail sales for these items fell a whopping 1.5 percent month-over-month, after dropping in five of the preceding seven months.

. . . Hurting Downstream Industries

The Association of Home Appliance Manufacturers estimates that about 30 percent of all appliances sold are placed in new or resold homes. So with housing starts and sales of existing homes slowing, the outlook for the household appliance industry is starting to lose some of its luster. Even replacement demand, which had been propelling sales since the current business expansion began, has slowed from the breakneck pace of the 1983-86 period when pent-up demand was strong.

After three years of record shipments and four years of sizzling sales growth, purchases of appliances are finally slowing. In the January-July period of this year, retail sales of household appliances increased only 1.9 percent compared with the same period a year ago. In the previous four years, the average increase for the same seven-month

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	162,877	– 978	+ 7,092
New York City (9/16/87)	37,312	+ 545	+ 4,385
Commercial Paper (9/16/87)	354,249	+ 2,519	+ 25,018

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	269,490	+ 15	+10,422
New York City (9/16/87)	58,233	+ 843	+ 756

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/9/87)	794,243	– 2,458	+47,630
New York City (9/16/87)	178,668	+ 3,840	+17,766

Financial Markets

	Friday 9/25/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.68%	+ .09	+ 1.33
180-Day Bills†	7.19	+ .18	+ 1.62
Longest Bills†	7.71	+ .16	+ 1.94
Recent Issues:			
7 3/4s 8/31/89	8.42	+ .18	
7 7/8s 6/30/91	8.92	+ .20	
8 5/8s 8/15/97	9.53	+ .16	
8 7/8s 8/15/17	9.68	+ .13	
Municipals:			
Bond Buyer–20 Bond Index* (9/24/87)	8.30%	– .02	+ 1.15
Blue List Total ($ Million)	$1,540	+ $ 71	– $107
30-Day Visible Supply ($ Million)	$1,808	+ $ 153	– $247
Total	$3,348	+ $ 224	– $354
Corporates:			
Moody's Aa Composite (9/24/87)	10.42%	– .04	+ 1.02
30-Day Visible Supply ($ Million)	$3,452	– $2,517	– $254
Stocks:			
Dow-Jones Averages:			
Industrials	2,570.17	+ 45.53	+800.48
Transportation	1,033.19	+ 19.36	+248.94
Utilities	195.95	+ 1.78	– 5.80
65 Stocks	935.95	+ 15.45	+234.89
N.Y.S.E. Composite Index	179.14	+ 2.78	+ 45.20
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,646	+ 11,618	+47,978

*34% Taxable equivalent 12.58%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/25/87	Week Ago
Overnight	7.00%	6.75%
1 month	7.50	7.44
3 month	7.56	7.50
6 month	8.00	7.94
1 year	8.56	8.44
EURODOLLAR BONDS Average Yield		
Medium Term (5 yrs.)	8.65%	8.65%
Long Term (10 yrs.)	9.42	9.42

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/25/87)	Currency Per U.S. $	Week Ago
Canada	1.3138	1.3140
France	6.0780	6.0190
Germany	1.8233	1.8058
Italy	1316.00	1304.00
Japan	143.96	142.60
Mexico	1568.00	1551.00
Switzerland	1.5129	1.4960
U.K.*	1.6355	1.6572

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (9/25/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/8
	+0.8%	–3.0%

period was a hefty 12.6 percent. For 1987 as a whole, appliance shipments are expected to increase less than one percent after jumping about eight percent in 1986. Worse still, 1988 could see the first annual drop in shipments since 1982.

In the furniture and home furnishings industry, the situation is similar. During the first half of 1987, most furniture makers enjoyed high volume gains as a result of pent-up demand from last year's strong housing resale and new construction markets. But now, the uptick in interest rates, renewed fears of inflation and high levels of consumer debt, together with the housing malaise, have caused a slowdown at the retail level which could in turn lead to a reduction in orders and production.

Personal consumption expenditures for furniture and home furnishings rose only 2.9 percent over the past 12 months—the smallest year-over-year increase since September 1982. According to *Furniture Today*, a trade publication, sales of furniture and home furnishings should increase about 3.2 percent, after adjusting for inflation, in 1987. And in 1988 only about one percent real growth is expected. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/23/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	233.420	+14.771	+34.709
Loans to Depository Inst.	.976	— .050	— .118
Float	.842	+ .052	+ .250
Total Reserve Bank Credit	251.932	+15.454	+34.832
Treasury Deposits with Federal Reserve Banks	21.647	+17.440	+14.022
Currency in Circulation	217.459	— 1.283	+16.742
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	181.872	— 2.551	+20.292
	9/23/87		
Member Bank Reserves:			
Total Reserves Held	57.536	— .114	+ 5.990
Excess (Deficiency)	.565	— .629	— .141
Net Free Reserves	.095	— .625	— .199

Monetary Aggregates †		% Change Since 3 Months Ago*	% Change Since Year Ago
M1 (9/14/87)	750.3	— 0.2‡	+ 8.4‡
M2 (August '87)	2,862.2	+ 3.1	+ 5.3
M3 (August '87)	3,605.7	+ 5.1	+ 6.1
Domestic Nonfinancial Debt (1st Q'87)	7,805.2	+ 6.4	+ 11.7

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 9/25/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	6.50%	6.87%	7.23%
* Federal Agencies	7.30	7.48	7.60
* Municipal Notes—High Grade (34% Taxable Equivalent)	7.95	8.18	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.55	7.94	8.45

‡Finance Company Paper—Prime

5- 14 days	7.15%
15- 29 days	7.28
30- 59 days	7.30
60- 89 days	7.38
90-179 days	7.43
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Oct.	7.35%
Nov.	7.37
Dec.	7.45
Jan.	7.55
Feb.	7.58
Mar.	7.58

‡Industrial Paper—Prime

30- 89 days	7.38%
90-120 days	7.45

†Federal Funds Effective Rate 7.30%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'87	$ 4,445r	$ 4,378	$ 4,212
Gross National Product (1982 Dollars)*	2nd Q'87	$ 3,795r	$ 3,772	$ 3,705
Percent Change, Annual Rate	2nd Q'87	2.5r	4.4	0.6
Change in Consumer Prices*	Aug '87n	6.0% (1)	2.4% (1)	2.4%
Change in Producer Prices*	Aug '87	0.0%	2.4%	4.8%
Civilian Employment (Thousands of Persons)†	Aug '87	113,081	112,727	110,067
Unemployment as % of Civilian Labor Force†	Aug '87	6.0%	6.0%	6.8%
Personal Income*	Aug '87n	$ 3,750	$ 3,732r	$ 3,553
Leading Indicators Composite Index (1967=100)†	Jul '87	191.8	190.8	179.9
Industrial Production Index (1977=100) †	Aug '87n	130.7	130.3r	125.1
Net Change in Consumer Installment Credit †	Jul '87	$ 3.46	$ 4.55	$ 6.28
U.S. Merchandise Trade Balance	Jul '87	—$ 16.47	—$ 15.71	—$ 16.05
Plant and Equipment Expenditures*	4th Q'87	$406.37(a)	$398.04(a)	$388.69
Private Housing Starts (Thousands of Units)*	Aug '87n	1,582	1,606r	1,800
New Construction Expenditures*	Jul '87	$ 391.8	$ 392.4	$ 391.0
Total Business Inventories †	Jul '87n	$ 676.2	$ 674.8r	$ 656.4r
Total Business Sales †	Jul '87n	$ 451.6	$ 451.7r	$ 421.2r

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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